Title: **Exploring the Easterlin Paradox: The Role of Governance in the Income-Happiness Relationship Across Country Income Levels**

Extensive Abstract:

This study investigates the mediating role of government effectiveness and control of corruption in the relationship between income and happiness, using cross-country data from 2018 to 2022. Government effectiveness and control of corruption metrics are derived from the Worldwide Governance Indicators by the World Bank, while income data is sourced from the World Bank's Gross National Income (PPP-adjusted). Happiness data is taken from the World Happiness Report, ensuring a comprehensive analysis of economic and social factors influencing happiness.

Countries are categorized into high-income and non-high-income groups (upper middle, lower middle, and low income) according to World Bank classifications. The primary aim is to assess the validity of the Easterlin paradox—the theory that the positive relationship between income and happiness diminishes as nations grow wealthier—by examining how governance factors mediate this relationship.

The methodology involves a multi-step approach. First, direct correlations between income and happiness are analyzed within both high-income and non-high-income groups. Next, mediation analyses are performed to assess the roles of government effectiveness and control of corruption in influencing the income-happiness relationship for both income categories. By incorporating these mediators, the study aims to capture the nuanced interactions that potentially modify this relationship.

The findings reveal significant partial mediation effects for both government effectiveness and control of corruption in high-income countries, indicating that these governance factors play a critical role in modulating the relationship between income and happiness. This suggests that as countries become wealthier, the direct impact of income on happiness becomes increasingly dependent on governance quality, supporting the Easterlin paradox. In contrast, among non-high-income countries, no significant mediation effects were observed. This implies that in these nations, income's influence on happiness is more straightforward and less impacted by governance variables.

These results underscore the importance of strong governance practices in enhancing well-being in more affluent countries. The findings highlight that while income remains a key determinant of happiness, its effect can be significantly altered by the presence of effective governance and low corruption. For policymakers, this suggests that fostering good governance and reducing corruption can sustain happiness levels even as income grows. Conversely, for non-high-income countries, direct economic growth initiatives may remain a priority, as the mediation by governance factors is less influential.

Keywords: *income, happiness, government effectiveness, control of corruption, Easterlin paradox*

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